

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| THE APPLICATION OF DELTA NATURAL GAS |) | |
| COMPANY, INC. FOR AN ORDER AUTHORIZING |) | CASE NO. |
| THE PURCHASE AND FINANCING OF THE CANADA |) | 95-098 |
| MOUNTAIN GAS STORAGE FIELD |) | |

O R D E R

On March 9, 1995, Delta Natural Gas Company, Inc. ("Delta") applied to the Commission for approval of its acquisition of interests in certain real, personal and intangible property located in Bell County, Kentucky ("Storage Field"). Delta further applied to the Commission for a certificate of convenience and necessity for the purchase and for construction or acquisition of the facilities necessary to utilize the Storage Field; for approval of the issuance of a \$1,800,000 promissory note; for approval of the transfer of assets to Deltran, Inc. ("Deltran"), a wholly-owned subsidiary of Delta; and for authorization to enter a storage agreement with Deltran.

The proposed Storage Field and related facilities (12.9 miles of 12-inch pipeline, two compressor stations, dehydration unit, and connecting pipe network) will enable Delta to serve reliably its southern system during heating seasons after 1998 when it expects its main source of gas for the southern system to be depleted. Without the Storage Field, Delta would be forced to connect its southern system to interstate transmission pipelines. However,

based on its analysis,¹ Delta concluded that the Storage Field is a more feasible option for providing a firm and more reasonably priced supply of gas to its southern system.

The Storage Field consists of seven gas wells. At any given time, Delta intends to use six wells for injection and withdrawal and the seventh will serve as a substitute when workover and observation are required on one of the other six.²

In connection with the purchase of the Storage Field, Delta proposes to issue a promissory note to Lonnie D. Ferrin in the original principal sum of \$1,800,000 ("Promissory Note") payable in three installments of \$400,000, \$700,000 and \$700,000 respectively, the last such installment being due and payable on the sixth anniversary of the closing, as defined in the purchase agreement. The Promissory Note would bear no interest.

Delta plans to acquire and construct the assets necessary to operate the Storage Field and then, at future dates, transfer the assets to Deltran, which is not subject to Commission jurisdiction at this time. Delta asserts that it is in the best interest of its customers to transfer the Storage Field assets to Deltran at some future date to allow recovery of the storage project costs through its gas cost recovery mechanism rather than through general rate

¹ In response to the Commission's May 24, 1995 Order, Delta provided additional information relating to its analysis of the alternatives available. On June 13, 1995, Delta requested that its response be held confidential. This request for confidentiality is pending before the Commission.

² Id. In its response, Delta also provided additional details of the Storage Field's characteristics.

cases. Delta states it would transfer assets to Deltran no less frequently than quarterly, so that Deltran's records would reflect current costs, and Deltran's revenue calculation would be current and accurate.

Delta should file an application with the Commission to obtain approval to transfer ownership of the Storage Field and related facilities at least 60 days before any assets are transferred. At that time, the Commission will make appropriate determinations regarding Deltran's jurisdictional status and any asset transfer. The Commission accordingly expresses no opinion on any future transfers of assets to presently regulated or unregulated subsidiaries.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Delta's purchase of the Storage Field and related facilities, as described in the purchase agreement, and construction or acquisition of approximately 12.9 miles of a 12-inch pipeline and appurtenances should be approved.

2. The issuance of the Promissory Note by Delta is for lawful objects within the corporate purposes of Delta's utility operations, is necessary and appropriate for such purposes, and should therefore be approved.

3. The future transfer of the Storage Field assets to Deltran is outside the scope of this proceeding. Since no transfer of assets has occurred, approval of the proposed storage agreement is premature.

IT IS THEREFORE ORDERED that:

1. Delta be and it hereby is authorized to issue a \$1,800,000 promissory note payable in three installments subject to the terms and conditions and for the purposes set forth in the purchase agreement in its application.

2. Delta is hereby granted a certificate of convenience and necessity to construct or acquire the proposed pipeline and related facilities referenced herein.

3. Delta shall implement procedures and activities recommended by its engineering consultant prior to placing the Storage Field into operation, and submit information to the Commission that this has been done prior to operation.

4. Delta shall file with the Commission a copy of the final construction schedule no later than 15 days prior to the commencement of construction.

5. Delta shall file with Commission the actual cost of the construction, and as-built drawings of the system no later than 3 months of the date of completion of the work.

6. At least 60 days prior to the transfer of the Storage Field or related facilities, Delta shall file an application for approval pursuant to KRS 278.020. Any proposed storage agreement shall be filed with this application.


Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 7th day of September, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director